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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the quarterly period ended September 30, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27823



**Spanish Broadcasting System, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3827791**  
(I.R.S. Employer  
Identification No.)

**7007 NW 77th Ave.  
Miami, Florida 33166**

**SPANISH BROADCASTING SYSTEM, INC.**

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### **Special Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Spanish Broadcasting System, Inc. intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of such safe harbor provisions.

“Forward-looking” statements, as such term is defined by the Securities Exchange Commission (the “SEC”) in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, our recapitalization plan and restructuring efforts, growth and acquisition strategies, investments and future operational plans. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “forecast,” “seek,” “plan,” “predict,” “project,” “could,” “estimate,” “might,” “continue,” “seeking” or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including, but not limited to, those identified in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on April 1, 2019 (the “Annual Report”), and those described from time to time in our future reports filed with the SEC. All forward-looking statements made herein are qualified by these cautionary statements and risk factors and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized.

We do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements—Unaudited**

**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

Assets	September 30, 2019	December 31, 2018
<b>Current assets:</b>		
Cash and cash equivalents	\$ 18,924	\$ 22,468
<b>Receivables:</b>		
Trade	32,331	32,769
Barter	205	431
	32,536	33,200
Less allowance for doubtful accounts	949	1,649
Net receivables	31,587	31,551
Prepaid expenses and other current assets	4,444	7,480
Total current assets	54,955	61,499
Property and equipment, net of accumulated depreciation of \$62,268 in 2019 and \$60,446 in 2018	23,209	22,414
FCC broadcasting licenses	321,714	321,714
Goodwill	32,806	32,806
Other intangible assets, net of accumulated amortization of \$1,308 in 2018	—	1,239
Operating lease right-of-use assets	16,859	—
Other assets	5,633	4,640
Total assets	\$ 455,176	\$ 444,312
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 18,260	\$ 20,370
Accrued interest	1,513	1,513
Unearned revenue	774	798
Other liabilities	—	9
Operating lease liabilities	1,163	—
12.5% senior secured notes (note 10)	249,864	249,864
10 3/4% Series B cumulative exchangeable redeemable preferred stock outstanding and dividends outstanding, \$0.01 par value, liquidation value \$1,000 per share. Authorized 280,000 shares: 90,549 shares issued and outstanding at September 30, 2019 and December 31, 2018 and \$92,067 and \$84,766 of dividends payable as of September 30, 2019 and December 31, 2018, respectively (note 11)	182,616	175,315
Total current liabilities	454,190	447,869

**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statements of Operations  
(In thousands, except per share data)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	\$ 36,261	\$ 34,038	\$ 110,547	\$ 102,724
Operating expenses:				
Engineering and programming	7,270	6,368	21,357	19,425
Selling, general and administrative	15,344	14,444	49,508	42,458
Corporate expenses	2,961	2,132	8,510	8,175
Depreciation and amortization	899	910	2,671	2,906
Total operating expenses	26,474	23,854	82,046	72,964
Loss (gain) loss on disposal of assets, net of disposal costs	131	(12,671)	92	(12,721)
Recapitalization costs	1,915	2,286	5,289	4,727
Executive severance expenses	—	—	1,844	—
Impairment charges	—	—	—	483
Other operating loss (income)	1	—	(16)	—
Operating income	7,740	20,569	21,292	37,271
Other expense:				
Interest expense, net	(7,807)	(7,748)	(23,419)	(24,013)
Dividends on Series B preferred stock classified as interest expense (note 11)	(2,434)	(2,434)	(7,301)	(7,301)
(Loss) income before income tax	(2,501)	10,387	(9,428)	5,957
Income tax (benefit) expense	(2,156)	1,722	(3,382)	2,659
Net (loss) income	\$ (345)	\$ 8,665	\$ (6,046)	\$ 3,298
Class A and B net income (loss) per common share (note 4)				
Basic	\$ (0.05)	\$ 1.18	\$ (0.82)	\$ 0.45
Diluted	\$ (0.05)	\$ 1.18	\$ (0.82)	\$ 0.45

See accompanying notes to the unaudited condensed consolidated financial statements.

**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statements of Cash Flows  
(In thousands)

	Nine-Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (6,046)	\$ 3,298
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense (note 11)	7,301	7,301
Loss (gain) on the disposal of assets, net of disposal costs	161	(12,541)
Gain on insurance proceeds received for damage to equipment	(69)	(180)
Impairment charges	—	483
Stock-based compensation	9	39
Depreciation and amortization	2,671	2,906
Net barter income	(716)	(86)
Provision for trade doubtful accounts	569	268
Deferred income taxes	(4,481)	961
Unearned revenue	471	192
Changes in operating assets and liabilities:		
Trade receivables	(844)	2,906
Prepaid expenses and other current assets	3,121	(1,809)
Other assets	(993)	(304)
Accounts payable and accrued expenses	(1,464)	473
Accrued interest	—	(304)

**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The unaudited condensed consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries (the Company, we, us, our or SBS). All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements as of September 30, 2019 and December 31, 2018 and for the three- and nine-month periods ended September 30, 2019 and 2018 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2018, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed by the Company on April 1, 2019 (the “Annual Report”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of September 30, 2019 through the financial statements issuance date. The results of operations for the nine-months ended September 30, 2019 are not necessarily indicative of the results for the entire year ending December 31, 2019, or for any other future interim or annual periods.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern, and do not include any adjustments that might result if we were unable to do so, and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2019 and December 31, 2018, we had a working capital deficit due primarily to the classification of our 10¾% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”) as a current liability and the classification of our 12.5% Senior Secured Notes due 2017 (the “Notes”) as a current liability. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to redeem or repurchase the Series B preferred stock and its accumulated unpaid dividends. If we are successful in repaying or refinancing our Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B preferred stock, to the extent of the funds legally available. The Company is currently involved in litigation with some holders of the Series B preferred stock. See Note 8 elsewhere in these Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail regarding the Series B preferred stock litigation.

As discussed in Note 10, the Notes became due on April 15, 2017. Cash from operations and proceeds from the sale of assets and the FCC spectrum auction were not sufficient to repay the Notes when they became due. We have worked and continue to work with our advisors regarding a consensual recapitalization or restructuring of our balance sheet, including through the issuance of new debt or equity to raise the necessary funds to repay the Notes. The Series B preferred stock litigation and the foreign ownership issue have complicated our efforts at a successful refinancing of the Notes. The resolution of the recapitalization or restructuring of our balance sheet, the litigation with the purported holders of our Series B preferred stock and the foreign ownership issue are subject to several factors currently beyond our control. Our efforts to effect a consensual refinancing of the Notes, the Series B preferred stock litigation and the foreign ownership issue will likely continue to have a material adverse effect on us if they are not successfully resolved.

Although the Company expects to maintain cash on hand sufficient to meet its operating obligations, its inability to obtain financing in adequate amounts and on acceptable terms necessary to repay our Notes and redeem or refinance our Series B preferred stock, obtain a favorable resolution to the Series B preferred stock litigation, or finance future acquisitions, negatively impacts our business, financial condition, results of operations and cash flows and raises substantial doubt about our ability to continue as a going concern. The financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

### ***Changes in Accounting Policies – Leases***

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. This new standard requires organizations that lease assets to recognize on the balance sheet the lease assets and lease liabilities for the rights and obligations created by those leases (with the exception of short-term leases) and disclose key information about the leasing agreements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard also requires expanded disclosures regarding leasing arrangements. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, intended to clarify the Codification or to correct unintended application of the guidance and ASU No. 2018-11, *Leases (Topic 842) – Targeted improvements*, which provides an alternative modified retrospective transition method. Under this method, the cumulative-effect adjustment to the opening balance of retained earnings is recognized on the date of adoption. We adopted this ASU on January 1, 2019 using the modified retrospective approach and have elected the transition option, which allows us to continue to apply the legacy guidance for comparative periods, including disclosure requirements, in the year of adoption. We have elected to use the package of practical expedients available to us, including the short-term lease exception. Adoption of the new standard resulted in the recording of right-of-use assets and lease liabilities of \$13.9 million and \$13.9 million, respectively, as of January 1, 2019. The operating lease right-of-use asset includes the impact upon adoption of ASC Topic 842 of the derecognition of lease incentives, deferred rent, below-market lease intangibles, and prepaid rent balances recognized in prepaid expenses and other current assets, other intangible assets, accounts payable and other accrued liabilities and other liabilities on the consolidated balance sheets as of December 31, 2018. The standard did not materially impact our consolidated statements of operations or consolidated statements of cash flows. Additionally, we did not record a cumulative effect adjustment to opening accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting guidance in effect for that period.

### ***Recently Issued Accounting Pronouncements***

In March 2019, the FASB issued ASU No. 2019-02, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*. ASU 2019-02 helps organizations align their accounting for production costs for films and episodic content produced for television and streaming services. The standard addresses when an organization should assess films and license agreements for program material for impairment at the film-group level, revises presentation requirements; requires new disclosures about content that is either produced or licensed; and, addresses cash flow classification for license agreements. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect the update will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the effect the update will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The guidance eliminates the requirement to disclose the valuation process for Level 3 fair value measurements. The methodology used to arrive at the fair value of the Series B preferred stock results in a Level 3 classification. The Company has not currently adopted this ASU, however, the new guidance will not have an impact on our financial position or results of operations. Upon adoption, the Company will revise its disclosures in accordance with the requirements of this ASU.



In June 2018, the FASB issued ASU No. 2018-07 *Compensation—Stock Compensation (Topic 718)—Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of share-based compensation guidance to include share-based payment transactions for acquiring goods and services from nonemployees. The update is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than the adoption date for ASC 606 on revenue recognition. The update is effective through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the effect the update will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments* which introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables and held-to-maturity debt securities, which will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands disclosure requirements and will be applied using the modified-retrospective approach. The update is effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. The Company has not currently adopted this ASU. Based on our preliminary assessment, the Company does not expect the adoption of this update to have a material impact on our financial position, results of operations or cash flows.

## 2. Revenue

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized and reported reflects the consideration to which the Company expects to be entitled to receive in exchange for these services and entitled under the contract. Substantially all deferred revenue is recognized within twelve months of the payment date. To achieve this core principle, the Company applies the following five steps:

- 1) Identify the contract with a customer,
- 2) Identify the performance obligations in the contract,
- 3) Determine the transaction price,
- 4) Allocate the transaction price to performance obligations in the contract, and
- 5) Recognize revenue when or as the Company satisfies a performance obligation.

### *Disaggregation of Revenue*

The following table summarizes revenue from contracts with customers for the three- and nine-months ended September 30, 2019 and 2018 (in thousands):

	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Local, national, digital and network	\$	37,932		

## *Nature of Products and Services*

### **(a) Local, national, digital and network advertising**

Local and digital revenues generally consist of advertising airtime sold in a station's local market, the Company's La Musica application or its websites either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). National revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by an outside national representation firm, which serves as an agent in these transactions. Revenues from national advertisers are presented as net of agency commissions as this is the amount that the Company expects to be entitled to receive in exchange for these services and entitled to under the contract. Network revenue generally consists of advertising airtime sold on the AIRE Radio Networks platform by network sales staff.

A contract for local, national, digital and network advertising exists only at the time commercial substance is present. For each contract, the Company considers the promise to air or display advertisements, each of which is distinct, to be the identified performance obligation. The price as specified on a customer purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs as an advertisement airs or appears.

### **(b) Special events**

Special events revenue is generated from ticket sales, as well as through profit-sharing arrangements for producing or co-producing live concerts and events promoted by radio and television stations.

performance obligation. The price as specified on a counterparty's agreement, which is generally stated on a per user basis, is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs on a month-to-month basis. Other revenues related to renting tower space are recognized in accordance with ASC 842 - Leases.

### ***Significant Judgments***

As part of its consideration of the existence of contracts, the Company evaluates certain factors including the customer's ability to pay (or credit risk). Advertising contracts are for one year or less. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

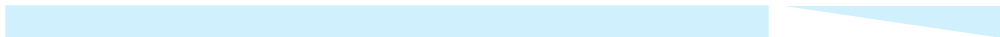
### ***Contract Balances***

During the three-months ended September 30, 2019 there were no local, national, digital and network revenue recognized that were included in the unearned revenue balances at the beginning of the period and \$0.3 million of local, national, digital and network revenue was recognized during the nine-months ended September 30, 2019, that was included in the unearned revenue balances at the beginning of the period. During the three-months ended September 30, 2019, there were no special events revenue recognized that were included in the unearned balances at the beginning of period and \$0.1 million of special events revenue recognized during the

borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The

At December 31, 2018, future minimum lease payments under such leases are as follows (in thousands):

Year ending December 31:		
2019	\$	3,766
2020		2,545
2021		2,280
2022		2,249
2023		2,113
Thereafter		15,554
Total minimum lease payments	\$	



The following tables set forth the computation of basic and diluted net (loss) income available to stockholders for the three- and nine-month periods ended September 30, 2019 and 2018 (in thousands):

	<b>Three-Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Class A</b>	<b>Class B</b>	



## 6. Operating Segments

We have two reportable segments: radio and television.

The following summary table presents separate financial data for each of our operating segments (in thousands):

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2019	2018	2019	2018
<b>Net revenue:</b>				
Radio	\$ 32,493	\$ 30,255	\$ 99,564	\$ 90,785
Television	3,768	3,783	10,983	11,939
Consolidated	\$ 36,261	\$ 34,038	\$ 110,547	\$ 102,724
<b>Engineering and programming expenses:</b>				
Radio	\$ 5,688	\$ 5,303	\$ 16,370	\$ 16,016
Television	1,582	1,065	4,987	3,409
Consolidated	\$ 7,270	\$ 6,368	\$ 21,357	\$ 19,425
<b>Selling, general and administrative expenses:</b>				
Radio	\$ 13,778	\$ 13,191	\$ 44,621	\$ 37,228
Television	1,566	1,253	4,887	5,230
Consolidated	\$ 15,344	\$ 14,444	\$ 49,508	\$ 42,458
<b>Corporate expenses:</b>				
	\$ 2,961	\$ 2,132	\$ 8,510	\$ 8,175
<b>Depreciation and amortization:</b>				
Radio	\$ 400	\$ 420	\$ 1,174	\$ 1,256
Television	447	432	1,341	1,473
Corporate	52	58	156	177
Consolidated	\$ 899	\$ 910	\$ 2,671	\$ 2,906
<b>Loss (gain) on disposal of assets, net of disposal costs:</b>				
Radio	\$ (7)	\$ (159)	\$ (46)	\$ (171)
Television	138	29	138	(9)
Corporate	—	(12,541)	—	(12,541)
Consolidated	\$ 131	\$ (12,671)	\$ 92	\$ (12,721)
<b>Recapitalization costs:</b>				
Radio	\$ —	\$ —	\$ —	\$ —
Television	—	—	—	—
Corporate	1,915	2,286	5,289	4,727
Consolidated	\$ 1,915	\$ 2,286	\$ 5,289	\$ 4,727
<b>Executive severance expenses</b>				
Radio	\$ —	\$ —	\$ —	\$ —
Television	—	—	—	—
Corporate	—	—	—	—



	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<b>Capital expenditures:</b>				
Radio	\$ 802	\$ 588	\$ 1,828	\$ 1,461
Television	187	76	986	150
Corporate	136	101	437	135
Consolidated	<u>\$ 1,125</u>	<u>\$ 765</u>	<u>\$ 3,251</u>	<u>\$ 1,746</u>

	September 30,	December 31,
	2019	2018
<b>Total Assets:</b>		
Radio	\$ 396,261	\$



approach, and the yield method resulting in a Level 3 classification. The Black-Scholes method utilized an estimate of the fair value of the SBS equity, volatility, an estimate of the time to liquidity, and a risk free rate in the determination of the SBS preferred fair value. Key assumptions for the income and yield methods included the expected yield on preferred stock, accrued dividends, the principal amount of the Series B preferred stock, and an estimate of the time to liquidity. A discount for lack of marketability of the preferred stock was also utilized in the analysis. The outcome of the Series B preferred stock litigation may impact the fair value of the Series B preferred stock going forward.

The estimated fair values of our financial instruments are as follows (in millions):

Description	Fair Value Hierarchy	September 30, 2019		December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
12.5% Senior Secured Notes due 2017 (note 10)	Level 2	\$ 249.9	262.6	\$ 249.9	258.6

10<sup>3</sup>

### ***Collateral and Ranking***

The Notes and the guarantees are secured on a first-priority basis by a security interest in certain of the Company's and the guarantors' existing and future tangible and intangible assets (other than Excluded Assets (as defined in the Indenture)), which constitutes substantially all of the Company's assets. The Notes and the guarantees are structurally subordinated to the obligations of our non-guarantor subsidiaries. The Notes and guarantees are senior to all of the Company's and the guarantors' existing and future unsecured indebtedness to the extent of the value of the collateral.

The Indenture permits us, under specified circumstances, to incur additional debt; however, the occurrence and continuance of the Voting Rights Triggering Event (as defined in Note 11 of the Notes to the Unaudited Condensed Consolidated Financial Statements) currently prevents us from incurring any such additional debt.

The Notes are senior secured obligations of the Company that rank equally with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Subject to certain exceptions, the Notes are fully and unconditionally guaranteed by each of our existing wholly owned domestic subsidiaries (which excludes (i) our existing and future subsidiaries formed in Puerto Rico (the "Puerto Rican Subsidiaries"), (ii) our future subsidiaries formed under the laws of foreign jurisdictions and (iii) our existing and future subsidiaries, whether domestic or foreign, of the Puerto Rican Subsidiaries or foreign subsidiaries) and our other domestic subsidiaries that guarantee certain of our other debt. The Notes and guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of our non-guarantor subsidiaries.

### ***Covenants and Other Matters***

The Indenture contains covenants that, among other things, limit our ability and the ability of the guarantors to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions, repurchase or redeem our capital stock and make certain restricted investments and make other restricted payments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends, make loans and sell assets to the Company and other restricted subsidiaries;
- enter into change of control transactions;
- manage our FCC licenses and broadcast license subsidiaries; and
- consolidate, merge or sell all or substantially all of our assets.

As a result of our failure to pay the Notes at maturity, an event of default under the Indenture has occurred and is continuing.

## **11. 10<sup>3</sup>/<sub>4</sub>% Series B Cumulative Exchangeable Redeemable Preferred Stock**

### ***Voting Rights Triggering Event***

On October 30, 2003, we partially financed the purchase of a radio station with proceeds from the sale, through a private placement, of 75,000 shares of our 10<sup>3</sup>/<sub>4</sub>% Series A cumulative exchangeable redeemable preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series A preferred stock"), without a specified maturity date. The gross proceeds from the issuance of the Series A preferred stock amounted to \$75.0 million.

On February 18, 2004, we commenced an offer to exchange registered shares of our 10<sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable preferred stock, par value \$0.01 per share, for 76,702 shares of our 10<sup>3</sup>/<sub>4</sub>% Series A preferred stock, par value \$0.01 per share. On February 18, 2004, we completed the purchase of 76,702 shares of our 10<sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable preferred stock, par value \$0.01 per share, for 76,702 shares of our 10<sup>3</sup>/<sub>4</sub>% Series A preferred stock, par value \$0.01 per share.



Given the information that was disclosed to us in the Preferred Holder Complaint regarding the purported ownership of a majority of the Series B preferred stock by foreign entities, we were required to take immediate remedial action in order to ensure that any potential violations of the Communications Act and our Charter resulting from that ownership did not adversely affect our FCC broadcast licenses and ability to continue our business operations. Accordingly, on November 28, 2017, consistent with our obligations and authority provided to us under the Communications Act and by Article X of our Charter, we notified the purported holders of our Series B preferred stock that we were suspending all rights, effective immediately, of the holders of the Series B preferred stock, other than their right to transfer their shares to a citizen of the United States. Such suspension of rights was meant from the outset to be a temporary and reasonable measure, intended to elicit the information necessary to determine which Series B preferred stock sales were valid under the Charter. The Company pledged to restore the suspended rights to each shareholder that demonstrated it was neither an alien nor a representative of an alien or upon a showing that its ownership of Series B preferred stock (including stakes held by any non-U.S. entities) complies with Section 310(b) of the Communications Act and the Charter.

Additionally, on November 13, 2017, the Company filed a notification with the FCC to apprise the FCC of the possible non-compliance with the Communications Act's limits on foreign ownership. On December 4, 2017, the Company also filed a petition with the FCC for declaratory ruling (the "Petition") with respect to the potential excess foreign ownership. The Company filed the Petition not because it had concluded that an affirmative FCC public interest ruling regarding recognized foreign ownership was required, but at the suggestion of FCC staff to ensure the Company had prophylactically availed itself of the "safe harbor" protections of Section 1.5004(f)(4) of the FCC's Rules, in the event such a declaratory ruling ultimately proved necessary. This suggestion came after the Company had previously notified the FCC of a possible Section 310(b) foreign ownership issue triggered by the filing of the Preferred Holder Complaint. The FCC responded to the Petition by sending a letter to the Company detailing the information the FCC would need regarding the identities and nature of the purported foreign ownership of the Series B preferred stock to make a determination regarding the Petition and establishing a deadline for the disclosure of that information. The purported Series B preferred stockholders were therefore required to provide to the Company sufficient information about the extent and nature of their

On July 9, 2019, counsel to the Prohibited Foreign Purchasers sent a letter to the FCC requesting that it review the Company's equity as mandated by seminal FCC precedent and conclude that the holders of the Series B preferred stock, including the Prohibited Foreign Purchasers, did not and do not cause the Company to exceed the 25 percent foreign ownership benchmark. According to the letter, the Prohibited Foreign Purchasers disagree with the Company's calculations of its foreign equity ownership. The Company disagreed with the contents of this letter and on August 6, 2019 filed a timely response with the FCC detailing its objection to the Prohibited Foreign Purchasers position and again requesting that the FCC defer the issue to the pending Chancery Court proceeding. On August 26, 2019, counsel to the Prohibited Foreign Purchasers responded to our August 6 letter, largely reiterating their claims in the July 9 letter. The Company does not plan to respond to the August 26 letter and one is not required. As of the date of these financial statements, the FCC has not communicated with the Company regarding these letters.

As of the date of these financial statements, the Company believes that there remain genuine questions regarding valid ownership, or good title, to the Series B preferred stock by these foreign investors. As a result, we intend to remain vigilant regarding compliance with the Communications Act and our Charter and will continue to evaluate information provided to us by the purported holders of the Series B preferred stock. Because we have not yet received all of the requisite information from the purported holders, we have been unable to effectively determine whether to withdraw the suspension of their rights as owners of such preferred stock or the extent of any additional remedial action by the Company that may be necessary.

### ***Quarterly Dividends***

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the Series B preferred stock at a rate of 10 <sup>3</sup>/<sub>4</sub>% per year, of the \$1,000 liquidation preference per share. All dividends are cumulative, whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates. While the Voting Rights Triggering Event continues, we cannot pay dividends on the Series B preferred stock without causing a breach of covenants under the Indenture governing our Notes.

As of September 30, 2019, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately \$92.1 million, which is accrued on our condensed consolidated balance sheet as 10 <sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable redeemable preferred stock.

### ***Accounting Treatment of the Preferred Stock***

The Series B preferred stock will be measured at subsequent reporting dates at the amount of cash that would be paid under the conditions specified in the contract, as if the settlement occurred at the reporting date, recognizing the resulting change in that amount





### ***Business Drivers and Financial Statement Presentation***

The following discussion provides a brief description of certain key items that appear in our consolidated financial statements and general business factors that impact these items.

#### ***Net Revenue Description and Factors***

Our net revenue is primarily derived from the sale of advertising airtime to local, national and network advertisers. Net revenue is gross revenue less agency commissions, which are generally 15% of gross revenue.

- Local and digital revenue generally consists of advertising airtime sold in a station's local market, as well as the sale of advertising airtime during the streaming of our radio stations, the LaMusica application and our websites either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). For the nine-months ended September 30, 2019 and 2018, local and digital revenue comprised 68% and 69% of our gross revenues, respectively.
- National and network revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by our outside national representation firm, which serves as our agent in

### ***Operating Expenses Description and Factors***

Our operating expenses consist primarily of (1) engineering and programming expenses, (2) selling, general and administrative expenses and (3) corporate expenses.

- *Engineering and programming expenses.* Engineering and programming expenses are related to the delivery and creation of our programming content on the air. These expenses include compensation and benefits for employees and on-air talent involved in engineering and programming, transmitter-related expenses, originally produced content, on-air promotions, acquired programming, music license fees, and other expenses.
- *Selling, general and administrative expenses.* Selling, general and administrative expenses are related to the costs of selling our programming content and administrative costs associated with operating and managing our stations. These expenses include compensation and benefits for employees involved in selling and administrative functions, commissions, rating services, advertising, barter expenses, facilities expenses, special events expenses, professional fees, insurance, allowance for doubtful accounts, affiliate station compensation and other expenses.
- *Corporate expenses.* Corporate expenses are related to the operations of our corporate offices and matters. These expenses include compensation and benefits for our corporate employees, professional fees, insurance, corporate facilities expenses and other expenses.

We strive to control our operating expenses by centralizing certain functions at our corporate offices and consolidating certain functions in each of our market clusters. In our pursuit to control our operating expenses, we work closely with our local station management and vendors.

## Comparison Analysis of the Operating Results for the Three-Months Ended September 30, 2019 and 2018

The following summary table presents financial data for each of our operating segments (in thousands):

Three-Months Ended September 30,	
2019	2018

The following summary table presents a comparison of our results of operations for the three-months ended September 30, 2019 and 2018 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	<b>Three-Months Ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Net revenue	\$ 36,261	\$ 34,038
Engineering and programming expenses	7,270	6,368
Selling, general and administrative expenses	15,344	14,444
Corporate expenses	2,961	2,132
Depreciation and amortization	899	910
Loss (gain) on disposal of assets, net of disposal costs	131	(12,671)
Recapitalization costs	1,915	2,286
Other operating loss	1	—
Operating income	\$ 7,740	\$ 20,569
Interest expense, net	(7,807)	(7,748)

### ***Recapitalization Costs***

The Company incurred \$1.9 million of recapitalization costs, a decrease of \$0.4 million, primarily due to professional fees related to the current process of evaluating all options available towards executing a comprehensive recapitalization plan, as described in Note 1, Basis of Presentation, of the Notes to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. We incurred these costs primarily in connection with our continuing efforts to successfully recapitalize or restructure our balance sheet. Also included in these amounts are the legal and financial advisory fees paid to the ad hoc group of holders (the “Supporting Holders”) of more than 56% of the principal amount of outstanding Notes who previously entered into a forbearance agreement with us on May 8, 2017. See “Liquidity and Capital Resources—12.5% Senior Secured Notes.”

### ***Operating Income***

The decrease in operating income of \$12.8 million or 62% was primarily due to the prior year recognition of gain on sale of assets.

### ***Interest Expense, net***

The increase in interest expense of \$0.1 million or 1% was primarily due to recognizing a reduction of interest associated with the settlement of a state tax assessment in the prior year.

### ***Income Tax (Benefit) Expense***

The income tax benefit of \$2.2 million was primarily a result of a reduction of the deferred tax liabilities due to the continued generation of an indefinite lived deferred tax asset related to interest disallowance and the winding down of tax amortization on indefinite lived intangibles and the adjustment relating to the release of the valuation allowance on the Florida NOL deferred tax asset.

### ***Net (Loss) Income***

The net loss was primarily due to the decrease in operating income partially offset by the increase in income tax benefit.

## **Comparison Analysis of the Operating Results for the Nine-Months Ended September 30, 2019 and 2018**

The following summary table presents financial data for each of our operating segments (in thousands):

**Nine-Months Ended**

The following summary table presents a comparison of our results of operations for the nine-months ended September 30, 2019 and 2018 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	<b>Nine-Months Ended</b>	
	<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>
Net revenue	\$ 110,547	\$ 102,724
Engineering and programming expenses	21,357	19,425
Selling, general and administrative expenses	49,508	42,458
Corporate expenses	8,510	8,175
Depreciation and amortization	2,671	2,906
Loss (gain) on disposal of assets, net of disposal costs	92	(12,721)
Recapitalization costs	5,289	4,727
Executive severance expenses	1,844	—
Impairment charges	—	483
Other operating income	(16)	—

### ***Recapitalization Costs***

The Company incurred \$5.3 million of recapitalization costs, an increase of \$0.6 million, primarily due to professional fees related to the current process of evaluating all options available towards executing a comprehensive recapitalization plan, as described in Note 1, Basis of Presentation, of the Notes to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. We incurred these costs primarily in connection with our continuing efforts to successfully recapitalize or restructure our balance sheet. Also included in these amounts are the legal and financial advisory fees paid to the ad hoc group of holders (the “Supporting Holders”) of more than 56% of the principal amount of outstanding Notes who previously entered into a forbearance agreement with us on May 8, 2017. See “Liquidity and Capital Resources—12.5% Senior Secured Notes.”

### ***Executive Severance Expenses***

The Company incurred \$1.8 million of executive severance expenses, during the second quarter of 2019, in connection with the retirement and separation agreement with our former SEVP/CFO.

### ***Impairment Charges***

The decrease in impairment charges of \$0.5 million was primarily due to the impairment of our Puerto Rico market television FCC broadcasting license in the prior year.

### ***Operating Income***

The decrease in operating income of \$16.0 million or 43% was primarily due to the prior year recognition of gain on sale of assets and the current year increases in operating expenses, executive severance expenses and recapitalization costs partially offset by an increase in net revenue and not recognizing an impairment charge in the current period.

### ***Interest Expense, net***

The decrease in interest expense of \$0.6 million or 2% was primarily due to the decreased amount of monthly interest payments based on a lower principal amount due on the 12.5% Senior Secured Notes.

### ***Income Tax (Benefit) Expense***

The income tax benefit of \$3.4 million was primarily a result of a reduction of the deferred tax liabilities due to the continued generation of an indefinite lived deferred tax asset related to interest disallowance and the winding down of tax amortization on indefinite lived intangibles and the adjustment relating to the release of the valuation allowance on the Florida NOL deferred tax asset.

### ***Net (Loss) Income***

Net loss was primarily due to the decrease in operating income partially offset by the increase in income tax benefit.

### **Liquidity and Capital Resources**

The most important aspects of our liquidity and capital resources as of September 30, 2019 and, as of the date of this Quarterly Report on Form 10-Q, are as follows:



- Certain holders of our Series B preferred stock, of which there is approximately \$182.6 million outstanding (comprised of approximately \$90.5 million in liquidation preference and approximately \$92.1 million in accrued dividends), requested the redemption of their Series B preferred shares on October 15, 2013, which requests we did not satisfy in full. This gave rise to a continuing Voting Rights Triggering Event under the Certificate of Designations. One consequence of the existence of a Voting Rights Triggering Event is a prohibition on incurring additional indebtedness, including new indebtedness incurred to refinance outstanding indebtedness, among other things. Every quarter, we accrued additional dividends on the Series B preferred stock at a rate of 10 3/4% per year on the outstanding liquidation preference of the shares (or about \$9.7 million per year) and, because we do not make these dividend payments in cash, the outstanding liquidation preference of these shares increased by the dividend amount. A group of purported holders of the Series B preferred stock have sued in a Delaware Chancery Court, which has raised questions regarding the valid ownership of certain foreign entities of the Series B preferred stock, as described under Note 8. Commitments and Contingencies in the Notes to the financial statements contained in this Quarterly report on Form 10-Q and under the heading “Our Continued Recapitalization and Restructuring Efforts” in our Annual Report.
- Our current sources of liquidity are our cash and cash equivalents. The Company reinvested \$3.2 million of net cash into the operations through increased capital expenditures during the nine-months ended September 30, 2019 which reduced our current cash and cash equivalents during the period. Based on current estimates and assumptions, we expect to generate a sufficient amount of cash flow from operations, during 2019, to meet our ordinary course operating obligations over the next twelve month period.
- We had a working capital deficit of \$399.2 million, primarily due to the classification of our Notes and Series B preferred stock as current liabilities. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Excluding the Series B preferred stock of \$182.6 million, our adjusted working capital deficit totals \$216.6 million.

We continue to evaluate all options to effect a successful recapitalization or restructuring of our balance sheet, including a refinancing of the Notes. Our refinancing efforts have been made more difficult and complex with the litigation with certain purported holders of our Series B preferred stock and the foreign ownership issue. We provide more information about each of these items under the headings “Our Continued Recapitalization and Restructuring Efforts;” and “Risk Factors—Risks Related to Our Indebtedness and Preferred Stock” in our Annual Report.

Our primary source of liquidity is our current cash and cash equivalents. We do not currently have a revolving credit facility or other working capital lines of credit. Our cash flows from operations are subject to factors impacting our customers and target audience, such as overall advertising demand, shifts in population, station listenership and viewership, demographics, audience tastes and fluctuations in preferred advertising media. We do not expect to raise cash by increasing our indebtedness for several reasons, including the need to repay the Notes, the existence of an event of default under the Indenture that arose on April 17, 2017 and the existence of the Voting Rights Triggering Event. In addition, we also face the risk of the potential negative impact of an adverse ruling of the Series B preferred stock litigation, which is described in more detail in Note 8, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern and do not include any adjustments that might result if we were unable to do so, and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. Furthermore, as of September 30, 2019 and December 31, 2018, we had a working capital deficit due primarily to the classification of our Series B preferred stock as a current liability and the classification of our Notes as a current liability. Under Delaware law, our state of incorporation, the Serificit due

- despite the consequences resulting from the occurrence of the Voting Rights Triggering Event, we will continue to successfully implement our business strategy; other than with respect to acquisitions and investments requiring proceeds from debt financings;
- we will use cash flows from operating activities to fund our operations and pay our expenses (including interest on the Notes), but not to repay the Notes or redeem the Series B preferred stock; and
- we will not incur any material unforeseen liabilities, including but not limited to taxes, environmental liabilities, regulatory matters or legal judgments.

We cannot assure you that these assumptions will be realized.

Although the Company expects to maintain cash on hand sufficient to meet its operating obligations, its inability to obtain financing in adequate amounts and on acceptable terms necessary to operate our business, repay our Notes and redeem or refinance our Series B preferred stock, obtain a favorable resolution to the Series B preferred stock litigation, or finance future acquisitions, negatively impacts our business, financial condition, results of operations and cash flows and raises substantial doubt about our ability to continue as a going concern.

Historically, we have evaluated strategic media acquisitions and/or dispositions and strived to expand our media content through distribution, programming and affiliation agreements in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. Historically, we have engaged in discussions regarding potential acquisitions and/or dispositions and expansion of our content through media outlets from time to time in the ordinary course of business. As a result of the consequences resulting from the occurrence of the Voting Rights Triggering Event and the need to repay the Notes, we are currently not able to finance acquisitions through the incurrence of additional debt and are subject to additional restrictions which may preclude us from being able to execute this strategy.

#### ***12.5% Senior Secured Notes due 2017***

As of September 30, 2019, we had outstanding \$249.9 million principal amount of our Notes and as a result of our failure to pay the Notes at maturity, an event of default of the covenant to repay the Notes under the Indenture has occurred and is continuing. However, we continue to pay interest on the Notes at their current rate of 12.5% per year on a monthly basis. See Note 1 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional detail regarding our recapitalization efforts and our failure to repay the Notes at maturity.

#### ***Series B Preferred Stock***

On October 28, 2003, our Board of Directors approved the issuance of 280,000 shares of 10 ¾% Series B Cumulative Exchangeable Redeemable Preferred Stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share. Holders of the Series B preferred stock have customary voting rights and provisions. As of September 30, 2019, we had outstanding approximately \$90.5 million of Series B preferred stock due to the liquidation preference and accrued dividends of approximately \$92.1 million.

The Certificate of Designations entitles the holders of the Series B preferred stock to receive dividends when, and if, declared by the Board of Directors.

Holdes of the Series B preferred stock have customary protective provisions. The Certificate of Designations contains covenants that, among other things, limit our ability to: (i) pay dividends, purchase junior securities and make restricted investments or other restricted payments; (ii) incur indebtedness, including refinancing indebtedness; (iii) merge or consolidate with other companies or transfer all or substantially all of our assets; and (iv) engage in transactions with affiliates. Upon a change of control, we will be required to make an offer to purchase these shares at a price of 101% of the aggregate liquidation preference of these shares plus accumulated and unpaid dividends to, but excluding the purchase date.

The Certificate of Designations provided holders the right, on October 15, 2013, to require us to repurchase their shares, subject to the legal availability of funds. At the option of the holder, we were required to repurchase the Series B preferred stock at a purchase price equal to 100% of the liquidation preference, or \$1,000 per share, plus accrued and unpaid dividends. Certain holders of the Series B preferred stock exercised their repurchase option, but we were unable to fully repurchase the Series B preferred stock for which repurchases were requested, resulting in a continuing Voting Rights Triggering Event. During the continuation of a Voting Rights Triggering Event, certain restrictions are imposed on us, including (i) a prohibition on our ability to incur additional new indebtedness, (ii) restrictions on our ability to make restricted payments and (iii) restrictions on our ability to merge or consolidate with other companies or transfer all or substantially all of our assets. In addition, upon the incurrence and during the pendency of a Voting Rights Triggering Event, the holders of the Series B preferred stock have the right to elect two members to our Board of Directors. A Voting Rights Triggering Event shall continue until (i) all dividends in arrears shall have been paid in full and (ii) all other failures, breaches or defaults giving rise to such Voting Rights Triggering Event are remedied or waived by the holders of at least a majority of the shares of the then outstanding Series B preferred stock.

As discussed in Note 11, elsewhere in this Quarterly Report on Form 10-Q, we report dividends on the Series B preferred stock as interest expense.

For more information regarding the Series B preferred stock, see Note 11, elsewhere in this Quarterly Report on Form 10-Q.

### ***Series C Preferred Stock***

We are required to pay holders of Series C convertible preferred stock, \$0.01 par value per share (the “Series C preferred stock”) dividends on parity with our Class A common stock and Class B common stock, and each other class or series of our capital stock created after December 23, 2004. Each share of Series C preferred stock is convertible at the option of the holder into two fully paid and non-assessable shares of the Class A common stock. The Series C preferred stock holders have the same voting rights and powers as our Class A common stock on an as-converted basis, subject to certain adjustments. The Certificate of Designations for the Series C preferred stock does not contain a voting rights triggering event provision like the one found in the Certificate of Designations for the Series B preferred stock. Each holder of Series C preferred stock (i) has preemptive rights to purchase its pro rata share of any equity securities we may offer, subject to certain conditions, and (ii) may, at their option, convert each share of Series C preferred stock into two (2) shares of Class A common stock, subject to certain adjustments.

The terms of the Certificate of Designations for our Series C preferred stock limits our ability to (i) enter into transactions with affiliates and certain merger transactions and (ii) create or adopt any shareholders rights plan.

Mr. Alarcón is also the beneficial owner of all the shares of Series C preferred stock which are convertible into 760,000 shares of Class A common stock, subject to certain adjustments.

### ***Class A Common Stock***

As of September 30, 2019, we had 4,241,991 shares of Class A common stock outstanding.

### ***Class B Common Stock***

As of September 30, 2019, 2,340,353 shares of Class B common stock were outstanding, which have ten votes per share. Raúl Alarcón, our Chief Executive Officer and the Chairman of our Board of Directors, has voting control over all but 350 shares of the Class B common stock.

## Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the nine-months ended September 30, 2019 and 2018, with respect to certain key measures affecting our liquidity (in thousands). The changes set forth in the table are discussed below. This section should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the notes thereto.

	Nine-Months Ended September 30,		Change \$
	2019	2018	
Capital expenditures:			
Radio	\$ 1,828	\$ 1,461	367
Television	986	150	836
Corporate	437	135	302
Consolidated	\$ 3,251	\$	

## **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

Our critical accounting policies are described in Item 7 of our Annual Report. There have been no material changes to our critical accounting policies during the nine-months ended September 30, 2019.

## **Changes in Accounting Policies – Leases**

In February 2016, the accounting guidance for leases was modified to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. The guidance was effective on January 1, 2019, and was implemented using a modified retrospective approach at the beginning of the period of adoption, rather than at the beginning of the earliest comparative period presented in these financial statements. As a result, we changed our accounting policy for leases. Refer to Note 1 Basis of Presentation – Changes in Accounting Policies - Leases, included elsewhere in this quarterly report on Form 10Q for additional information.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are a “smaller reporting company” as defined by Regulation S-K and as such, we are not required to provide the information contained in this item pursuant to Regulation S-K.

## **Item 4. Controls and Procedures**

*Evaluation Of Disclosure Controls And Procedures.* Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes In Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting during the quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a description of our legal proceedings, see Note 8, Commitments and Contingencies, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

### **Item 3. Defaults Upon Senior Securities**

For a description of defaults upon senior securities, see Note 10, 12.5% Senior Secured Notes, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

## Item 6. Exhibits

The following exhibits, which are numbered in accordance with Item 601 of Regulation S-K, are filed herewith or, as noted, furnished herewith or incorporated by reference herein:

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Periodic Financial Report by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Periodic Financial Report by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith
**	Furnished herewith

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSÉ I. MOLINA \_\_\_\_\_

José I. Molina

*Chief Financial Officer*

*(principal financial and accounting officer  
and duly authorized officer of the registrant)*

Date: November 14, 2019

**CERTIFICATION**

I, Raúl Alarcón, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ RAÚL ALARCÓN

Name: Raúl Alarcón

Title: Chairman of the Board of Directors, President and  
Chief Executive Officer

Date: November 14, 2019



**CERTIFICATION**

I, José I. Molina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the "Company") for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raúl Alarcón, Chairman of the Board of Directors, President and Chief Executive Officer of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

/s/ RAÚL ALARCÓN

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Name: Raúl Alarcón

Title: Chairman of the Board of Directors,  
President and Chief Executive Officer

Date: November 14, 2019

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the "Company") for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, José I.